United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

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Memorandum

To: Associate Director for Policy and Management Improvement
Associate Director for Royalty Management

From: Deputy Director Kallaur

Subject: Compression Guidance

The guidance to the Royalty Management Program with respect to compression is as follows:

Sales of Unprocessed Gas

A lessee’s gross proceeds may not be reduced by the cost of compression, whether incurred directly or indirectly, which is performed prior to the BLM or MMS approved measurement point. Such compression is deemed to be for placing the gas into marketable condition.

A lessee's gross proceeds may not be reduced by the cost of compression, whether incurred directly or indirectly, which is performed to meet the delivery requirement for pressure of the pipeline immediately downstream of the BLM or MMS approved measurement point. Such compression is deemed to be for placing the gas into marketable condition.

The cost of compression, whether incurred directly or indirectly, which is performed after meeting the delivery requirement for pressure of the pipeline immediately downstream of the BLM or MMS approved measurement point is an allowable deduction from royalty as part of the lessee’s cost of transportation.

Value is not affected by the cost of any compression, whether incurred directly or indirectly by the lessee, which is performed downstream of the first sale.

Sales of Processed Gas

The cost of compression, whether incurred directly or indirectly by the lessee, which is performed to move gas from the lease to the inlet of a processing plant is an allowable deduction from royalty as part of the lessee's cost of transportation.

The cost of compression, whether incurred directly or indirectly by the lessee, which is performed either at the plant inlet or within the confines of a processing plant and which is an integral part of the processing plant is an allowable deduction from royalty as part of the lessee's cost of processing.

The cost of compression, whether incurred directly or indirectly by the lessee, which is performed to boost residue gas to meet the delivery requirement for pressure of the pipeline at the tailgate of the plant is not an allowable deduction from royalty. Such compression is deemed to be for placing the gas into marketable condition.

General

This guidance applies to compression performed under both arm's-length and non-arm's-length agreements, for both Federal and Indian leases. Valuation of non-arm's-length sales will continue to be determined under the benchmarks. Royalty under both arm's-length and non-arm's-length sales remains subject to the gross proceeds requirement.

Questionable situations should be referred to the Valuation and Standards Division for a valuation determination. Likewise, any situations involving compression which serves both an allowable purpose (e.g., to transport or process the gas) and an unallowable purpose (to place the gas into marketable condition) for deduction from royalty should be referred to the Valuation and Standards Division to determine the appropriate allocation of allowable and unallowable compression costs.